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"Affordable" Housing Laws Make Homes More Expensive

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Housing prices in the United States have risen dramatically over the last 23 years. As shown in the table on the next page, the average price of a home nearly tripled (a 195 percent increase) since 1980. Price increases have been even more dramatic in particular regions of the country. In California prices have increased 280 percent and in Massachusetts the increase was nearly fivefold (483 percent). Just over the last five years home prices have increased 38 percent in the United States. By way of comparison, the Consumer Price Index, which includes a substantial component for "shelter," has increased about 123 percent since 1980, and only about 13 percent during the past five years.

As housing has become more expensive, a number of local governments have intervened in the market to make housing more affordable. These efforts often take the form of "inclusionary zoning" that involves price controls intended to ensure that a percentage of new development is "affordable" to low-income families. Unfortunately, as any student of introductory economics should know, price ceilings have the undesirable consequences of creating shortages and lowering quality. Price restrictions through inclusionary zoning ordinances are no exception: restricting the supply of new market-priced housing makes housing *less* affordable.

Inclusionary zoning varies from region to region but the central feature is that government mandates that a portion of newly constructed homes be sold at below-market rates. For example, the inclusionary zoning ordinance in San Francisco requires 12 percent of new developments be "affordable" to families who meet certain income guidelines. For housing to be deemed "affordable," the units must be sold so families of defined incomes only need to spend 30 percent of their income on housing. Depending on the ordinance, future resale values are also restricted.

Most inclusionary zoning ordinances are compulsory, meaning that unless builders provide the below-market-rate units, their projects will not be permitted. Other affordable housing ordinances are "voluntary." These do not *require* builders to provide below-market-rate housing but instead offer incentives involving relaxation of the usual requirements. These may include "goodies" such as allowing denser development, taller buildings, decreased open space, or even tax abatements or fast-track permitting. With voluntary programs, developers are allowed to choose which form of government regulation they prefer: existing regulations or inclusionary zoning laws. In an interview, one developer described this situation to us as a way to "choose your own extortion." Our analysis is mainly concerned with mandatory inclusionary zoning although some similar problems exist with "voluntary" ordinances.

Inclusionary zoning ordinances date back to the early 1970s. The Washington, DC, area and California were among the first to pass inclusionary zoning. In 1971 Fairfax County, Virginia, passed a law requiring 15 percent of large multifamily dwellings to have affordability price controls. This law was later overturned as a taking by the Virginia Supreme Court and eventually re-implemented as a voluntary ordinance. Montgomery County, Maryland, passed its "moderately priced dwelling unit" ordinance in 1973, requiring that 12.5 percent to 15 percent of units (in developments of more than 50 units) be affordable to families with 50 to 80 percent of the median income. Montgomery County's ordinance is still in effect today. Communities in California were also early leaders in passing inclusionary zoning. A study found that 72 jurisdictions in the U.S. had some form of inclusionary zoning in 1982 and that 38 of those jurisdictions were in California.[1]

Inclusionary zoning ordinances are now on the books in communities in California, New Jersey, Colorado, Massachusetts, Illinois, New York, Connecticut, Florida, Delaware, Maryland, Oregon, Virginia, New Mexico and Washington. A 1991 survey found that nine percent of

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U.S. cities with populations over 100,000 had inclusionary zoning ordinances and the number appears to be growing. A 1991 survey found over 50 communities in California had inclusionary ordinances.

Percent Change in House Prices Through Q3 2003

State	*1-Yr.*	*5-Yr.*	*Since 1980*
United States	5.61	38.20	195.64
Massachusetts	7.38	71.57	483.80
New York	7.51	54.57	366.57
Rhode Island	12.35	69.24	325.68
New Jersey	8.45	55.15	290.78
New Hampshire	7.64	68.33	286.93
California	9.70	67.74	280.79
District of Columbia	9.10	82.88	269.95
Maine	7.65	51.38	263.21
Connecticut	7.07	46.83	255.44
Delaware	7.70	39.51	246.62
Maryland	8.65	43.91	221.09
Colorado	1.88	42.38	220.43
Vermont	5.60	39.31	220.04
Washington	3.53	27.29	217.61
Hawaii	8.30	29.62	204.20
Virginia	6.58	42.70	203.93
Minnesota	6.12	53.20	203.26
Michigan	2.98	30.00	196.34
Pennsylvania	6.02	29.97	194.98
Oregon	4.00	22.03	191.89
Illinois	4.30	30.33	188.68
Florida	8.64	48.28	178.75
Georgia	3.14	30.62	176.77
North Carolina	2.72	20.79	172.11
Wisconsin	3.83	27.80	162.05
Utah	1.80	10.45	160.28
Montana	6.19	28.03	157.28
South Carolina	2.99	25.51	155.88
Kentucky	3.41	22.26	151.90
Ohio	3.12	21.48	149.74
Missouri	4.00	29.38	148.12
Tennessee	3.06	18.82	145.50
Arizona	4.74	31.61	140.81
Nevada	7.00	27.81	135.73
Indiana	2.60	18.40	133.14
Alabama	3.71	19.84	132.04
South Dakota	3.92	23.51	131.14
Nebraska	2.72	19.32	129.20
New Mexico	4.35	16.87	128.81
Idaho	3.68	17.95	126.31
Iowa	3.46	22.59	115.85
Arkansas	3.83	19.52	110.64
Kansas	2.98	25.48	109.98
Mississippi	2.86	19.79	107.24
West Virginia	4.25	19.81	96.07
Alaska	4.23	21.80	92.37
North Dakota	4.40	19.34	90.66
Louisiana	4.45	23.52	87.64
Wyoming	5.57	28.57	87.35
Texas	2.36	26.86	86.55
Oklahoma	3.80	23.51	70.07

Source: Office of Federal Housing Enterprise Oversight.

Although the number of communities with inclusionary zoning ordinances has been increasing, evidence that these ordinances are beneficial remains elusive. Advocates of these laws cite the very fact that the laws exist, or that some units have been built, as proof of their success. But economic analysis requires us to take account of not only the obvious things that are seen but also what is unseen. Specifically, we need to consider the effects these ordinances have on the supply of housing and overall affordability.

Price Controls and the Housing Market

In the free market, housing prices are determined by supply and demand, but with affordable housing laws local governments regulate prices. Compelling builders to sell for below-market rates has all the traditional effects of price controls.

At lower prices, builders provide a lower quantity and lower quality of housing. Builders have costs, and they decide to develop property based on the expected revenue and expected costs. The law of supply tells us that if government restricts how much builders can charge, less investment in housing will occur than if government allows prices to adjust to market conditions. Since affordable housing mandates lower the developer's revenue, they make development less profitable. In turn, this results in decreased residential construction. Consider the example of one developer in Windsor, California:

> Orrin Thiessen, the architect and developer behind downtown Windsor's transformation, said if he is required to build affordable units along with his market-rate town houses, it could put him out of business. "That'll kill some of my projects," he said. "I'm buying land at very high prices and building very expensive buildings on top of it. It's pretty simple from my perspective. It just doesn't pencil out."

The greater the restrictions on price, the lower the quantity supplied, and at some point builders are unable to afford to build at all. Restricting how much builders can charge leads to less housing, not more.

A lower quantity of housing supplied is only the beginning of the problem, however. As the price of housing is lowered, the demand for housing will increase. Rather than sharing living arrangements, more people will choose to live alone and/or in bigger units.[2] When the relative price of buying becomes lower, it encourages more renters to want to become buyers. Those who have access to housing at the low price will consume more than they would if they had to pay a higher price. Analyzing the interaction between buyers

and sellers, one can see that setting housing prices below market-clearing levels creates a shortage because the quantity of housing demanded exceeds the quantity supplied. The less restrictive the mandate, the smaller the shortage. But to the extent that prices are pushed below market, a shortage will exist.

When quantity demanded exceeds quantity supplied, the available units have to be rationed, in which case a lucky few get the units while everyone else is left out. A number of studies show that restricting housing prices to below-market rates creates a situation in which only a few people can find units at the low price, which of course does not benefit the majority of the consumers. The affordable housing complex *Rich Sorro Commons* by San Francisco's Pacific Bell Park provides an interesting example. It had 2,700 applicants for only 100 units. A family had to be fortunate enough to be living in the city, apply, and then win a lottery to get one of the 100 units.[3] The other 2,600 families, as well as low-income families who were unable to apply, do not benefit from programs that give benefits to a select few. Affordable housing laws only help a very small portion of consumers own homes.

The experience of the city of Watsonville, California, illustrates what can happen on the supply side of the market. In 1990 the city passed a law requiring that 25 percent of all new homes be sold to low- and moderate-income buyers at below-market prices. Between 1990 and 1999, with the exception of a few small non-profit developments, there was almost no new construction. The law was finally revised in 1999. In the words of Watsonville Mayor Judy Doering-Nielsen, "There was an incredible pent-up demand. Our inclusionary housing ordinance was so onerous that developers wouldn't come in."[4] Jan Davison, the city's redevelopment and housing department director commented "It [the inclusionary zoning law] was so stringent, and land costs were so high that few units were produced," but then "It was completely redone in 2000, and we got more units produced."[5] The change in 2000 lowered affordable housing requirements from 25 percent to 20 percent for larger developments and lowered it to 15 percent for developments with between seven and 50 units. After almost a decade with no new developments, a 114-unit development, a 351-home development, a 389-unit development, and a number of smaller developments began construction after the lowering of affordable housing requirements. Overall, the number of projects approved and pending approval since 2000 is set to increase the city's housing stock by 12 percent. All of this development occurred with just a slight decrease in affordable housing requirements. If affordable housing laws were further rolled back even more units would come to market.

Some local governments have recognized problems with requiring builders to build affordable units, and so have adopted a compromise solution where builders can have an exemption by paying an in-lieu fee to a general housing fund. Proceeds from a general housing fund can be used to build new units elsewhere or can be given directly to potential buyers. An in-lieu fee is less destructive because it does not force builders to lower the value of the development with low-priced units and it actually enables builders to afford to give more to low-income households. A housing fund can help put more low-income families in homes than if government required builders to build them homes, so all parties are better off. Many cities such as Boston allow builders to pay an in-lieu fee instead of building the units themselves.

Some people might oppose an in-lieu fee option over the mandatory building. One reason is that it leads to a geographic separation of low-income and high-income housing. Advocates of inclusionary zoning want the government to plan and control the socioeconomic makeup of neighborhoods,[6] a form of social engineering. If the twentieth century taught us anything, it was that markets are much better than government control at allowing people to live their lives.

Another reason people may oppose an in-lieu fee is that it makes the costs of affordable housing quotas more visible. One of the misleading arguments by those who support below-market rates is that their program has no costs to the public. For example, Burchell and Galley write, "this regulatory tool creates economically diverse communities and allows local governments to create more heterogeneous communities at little or no direct financial cost…. Generally, the provision of affordable housing units as part of an inclusionary program does not require significant expenditure of public funds."[7] Although the programs do not require financial expenditures by government, requiring builders to sell for below-market rates clearly imposes costs on builders. Again, most advocates of affordable housing fail to notice this cost and some even argue that it is beneficial to developers. Describing one such program in Maryland, Fischer and Patton write, "some developers in Montgomery County who were skeptical of the program at the outset are now among its most enthusiastic supporters."[8] But one can arrive at such a conclusion only by ignoring the basic laws of economics. If the proposed building guidelines were really the most profitable for developers then there would be no reason to force developers to do what is in their best interest. The very fact that these programs are compulsory indicates that they are not profitable for builders. By seeing builders paying an in-lieu fee we can deduce that the costs of building affordable housing are significant.

Imposing costs on the building industry has economic consequences. When the government requires builders to pay into an in-lieu housing fund, the government is essentially imposing a special tax on the housing sector. Affordability quotas are the equivalent of a tax on housing whether the government requires builders to actually build the units or requires payment of an in-lieu fee.

Whether governments require builders to make a percentage of their new construction available at restricted prices or to pay in lieu fees, the effect is to restrict the supply of housing. If we want to lower housing costs, the last thing government should be doing is imposing taxes on the housing sector. When a tax is placed on the housing industry, it does not come solely out of builder profits. Taxes will lead to a restriction of supply and part of the tax will be passed onto consumers. A tax on the housing industry will lead to buyers paying more, sellers earning less, and fewer houses being built. This policy has the exact opposite effect of the stated objectives of affordable housing advocates. If the goal is to lower prices for consumers and increase the quantity of housing, government should impose fewer burdens, not more.

Effects on Low-Income Households

Some advocates of affordable housing laws believe that helping a few low-income families is worth it even if there are economic inefficiencies. Price controls are, however, an ineffective method of helping even the lucky few who get the units. Those who are able to purchase the price-controlled units receive but a few of the many benefits of homeownership.

The incentives created by price controls lead families to live in their homes longer than optimal. Many people sell their first starter home and move to larger homes as their earnings increase over their lifetime, but price controls create incentives for families to stay in their homes long after they need them. One of the main benefits of homeownership is building equity in a home that can appreciate in value. Unfortunately, affordable-housing mandates remove this benefit. The government can only guarantee that the units retain low prices by restricting the price at which the homes can be resold. Oftentimes the affordability controls are imposed indefinitely. Unfortunately, price controls limit the amount of appreciation and prevent the owners from gaining equity when they sell their home. This makes occupants of affordable housing much less likely to move because they would have to pay much higher market rates elsewhere. So even if incomes rise, a disproportionate percentage of those in affordable housing units will remain in them longer than they would choose otherwise.

People often choose their residence based on proximity to their job. Shortages created by housing (or rental) price controls decrease the mobility of workers. If, due to an artificial shortage, they cannot find housing within a reasonable commute, their choices of employment will be reduced. This harms both those with and without the below-market units. Those fortunate enough to get one of the below-market units are unlikely to give it up and move elsewhere. If offered a better job outside of commuting distance they would be less likely to accept it. This means more workers will end up in less fulfilling jobs close to their housing than under a free market where shortages are eliminated. Such policies decrease upward mobility for those who need it most.

Since owners of restricted units will never be able to sell at market price, the incentives to maintain property are taken away, making it more likely that price-controlled units will deteriorate over time. Even if the owner of rundown property would still be able to find buyers at the legally mandated below-market price, some owners of restricted units will lose much of the incentive for upkeep. One of the benefits of homeownership, the potential for the sweat-equity gains of home improvement, is not given to owners of restricted units. Families occupying homes with price restrictions may not be able to capitalize on their hard work to keep their homes maintained.

By giving low-income families a benefit with so many strings attached, affordability controls are far less valuable than advocates of affordability controls usually consider. For many families, the value of their home is their most important asset; but price controls prevent appreciation and thus do not give low-income families the normal full benefits of homeownership. Appreciation creates wealth and helps owners afford to borrow against the value of the home for an investment or cash-out to purchase another home. With capital appreciation taken away, they will be stuck with the home but little of its value. Homeownership is often considered the American dream; unfortunately, homeownership with no potential of appreciation is not the same thing.

Although even the lucky few who get price-controlled homes do not receive the full benefits of homeownership, the main problems with price controls are simply that the units are available only to a select few. Residents must fall within income guidelines and go through the bureaucratic process of qualifying to move into a regulated home. Everyone else is left out. The shortage created by price controls in turn creates spillover effects in the market for non-regulated units.

Because homes that would have been offered at market price are regulated as affordable housing, fewer

market-priced homes are available. This displaces families from potential market-priced homes and drives up the cost of housing for all market-rate homes. This creates an affordability problem for families who are squeezed out of the market. They have to stay in their older homes while low-income families take the new homes. The affordability quota introduces a two-tiered housing market: one market with price-controlled units, and the other with more expensive housing that now can be afforded only at higher incomes. A select few benefit, but others in similar demographic and income groups face higher housing costs.

Providing homes at below-market rates also ties a long-term subsidy to some who may only need short-term help. Housing is a long-term commitment, but income varies throughout the course of a lifetime. Affordable housing programs target only households that are currently low-income. Most people have lower incomes in their twenties and thirties (at the beginning of their careers), higher incomes in their forties and fifties (at the peak of their careers) and then higher wealth but lower annual income in retirement. But the affordability requirement misses all of this. People at the start of their career may be low-income and qualify for an affordable unit today, but may be making much more money later on. But, given the nature of the affordability controls, those who receive the affordable units will be able to keep their below-market housing payments even after they are in higher-income brackets.

Data show that, although some people remain at low incomes throughout their lives, most low-income households move into higher-income categories as time moves on. Data from the *University of Michigan Panel Survey on Income Dynamics* show that of those who were in the bottom income quintile (those in the bottom 20 percent) in 1975, only 5.1 percent remained in that lowest income quintile bracket by 1991. In fact, 29 percent of the lowest fifth of income earners in 1975 had moved to the top 20 percent of income earners sixteen years later. This means that price-controlled units can remain occupied by households long after they ceased to qualify as "poor." Programs aimed at helping low-income households should not be tied to long-term assets such as homes.

Price controls on new homes are not an effective method of helping low-income families. A shortage is created where only a select few get units. Even those lucky enough to get the units do not get the full benefits of homeownership, and since income varies over the course of a lifetime, those subsidized today are not the same who are in need of a subsidy tomorrow. Because the incentives created by price controls lead those in below-market units to remain longer even if their incomes rise, the price controls do not help many lower income families in the future.

How a Free Market in Housing Works

Rather than discouraging the production of housing with price controls, governments should encourage housing by allowing market prices and removing impediments to construction. As the late Henry Hazlitt explained, "the cure for high prices is high prices. High prices lead to economy in consumption and stimulate and increase production. Both of these results increase supply and tend to bring prices down again."[9] Allowing market prices will lead builders to build more, and an increase in supply leads to lower prices. But if government restricts how much builders can charge, less housing will be built. Restricting the supply will actually lead to higher housing prices, the exact opposite of the result the advocates of the affordable housing quota hope for.

If governments restrict the prices builders can charge, they will provide fewer units. This will harm everyone. Consider a hypothetical town with only two homes and three families of different income levels. The high-income family starts with a nice old home, the middle-income family starts with a mid-range home, and the low-income family shares a home elsewhere, an undesirable situation. What type of home should governments encourage a developer to build?

The assumption of advocates of affordable housing is that the "needs" of the low-income family should have the highest priority. Such advocates tend to look at what is created under their program but fail to consider what *wasn't* created because of the program. An article in *Real Estate Issues*, "Mixed-Income Housing: A New Direction in State and Federal Programs,"[10] makes this clear; the only measure of accomplishment is that the programs required affordable homes to be built. Likewise, *California Affordable Housing Law Project*'s "Inclusionary Zoning: Policy Consideration and Best Practices" includes 24 pages on how the affordability requirements can be imposed and less than a page on their measure of success.[11] The only measure is that the policies should be imposed, enforced, and then tracked by government. But the mere fact that a policy is imposed does not mean it is successful and certainly does not mean it is worthwhile. These advocates fail to consider the costs of the project or how many homes were not built because of the mandate.

In our hypothetical example of the three-family town, requiring that the land be developed with affordable housing will lead to one of two results: either builders build or they do not. If no home is built, the situation is undoubtedly not improved, but when an affordable home is actually built, is it an improvement? The proper comparison is not between no home and a home built with price controls but between what would be built with the

price controls and what would be built without. By making this comparison we can see that an affordable-housing quota can actually make all parties worse off. The simplest way a developer can meet the expense of selling a house for $130,000 is to adjust quality and size downward until the cost of the homes is slightly less than $130,000. If the builder builds a $130,000 home for the low-income family, the high-income family will stay in their old nice home and the middle-income family will stay in their old mid-range house. The situation is an improvement compared to one where no home is built, but it is actually inferior to a situation where a new market-rate home is built and all three families get to upgrade.

If the high-income family could move into a brand new home, they would move out of their old home, which would free it up for the middle-income family. The improvement of housing stock would mean that the nice old home previously occupied by the high-income family will become affordable by the middle-income family. This is because the high-income family will be the highest bidder on the new home, and no longer be the highest bidder on the nice old home. The middle-income household becomes the highest bidder on the nice old home. When the middle-income family moves into the nice old home their situation improves and they free up their mid-range home for the low-income family. A situation with a nice new home, a nice old home, and a mid-range home is superior to a situation with a nice old home, a mid-range home, and a new low-end home. The cost of having the new low-end home is not having the new high-end home that would in fact be of benefit to all three families.

Obviously, more than three families live in most cities but the principles evident in the hypothetical three-family town are exactly the same. Building a below-market home displaces a family who wanted to pay the market price and prevents everyone from improving their living situation. If 6,000 residents move into new market-priced homes they will vacate upwards of 6,000 homes. The families who purchase the 6,000 vacated homes will be moving out of near that many as well. Regardless of the length of the chain, this increase in the supply of housing will free up housing and push prices down for all groups.

A classic study, *New Homes and Poor People*, looked into the chain of existing home sales in 13 different cities and found that each new home generated an average of 3.5 moves.[12] All of those moves increased the supply and lowered the price of existing homes, thus making them more affordable for low-income buyers. This study also found that lower income brackets benefit from this chain of sales created by market-priced new construction. The study reports that between nine percent and 14 percent of all movers were low-income. The effect on moderate-income families is even stronger. In moves after the first new construction move, people of moderate income made up 30 percent of movers. The study's overall finding was, "Any policy which increases the total supply of housing will be beneficial. The working of the market for housing is such that the poor will benefit from any actions which increase the supply in the total market."

Not all chains of sales are the same length. Many variables contribute, but the higher the price of a new home the greater the length of the chain that allows more people to benefit. If higher-priced new housing is built, it will benefit the high-income families who move into it, the middle-income households who move into their old homes, and the low-income households who move into the middle-income families' old homes. Market-priced homes benefit all housing consumers and improve affordability. But if the price of new housing is restricted with affordable housing regulations, average-income families and others who would usually benefit from upgrades in the chain of moves generated by new construction are cut out of the process even when developments are built.

Many advocates of affordable housing recognize that government should not encourage inferior housing but instead want high-quality homes produced. They wish to mandate that the developer build expensive homes but sell them at below-market rates. The Public Interest Law Project's *California Affordable Housing Law Project* states:

> Inclusionary units should retain the same basic amenities as the market-rate units. In addition to size and location, inclusionary units should also possess the same basic amenities as the market rate units in the development. Again, these requirements serve to discourage the stigma and "ghettoizing" of the affordable units.[13]

In such a situation, advocates hope for new high-quality homes that would go to low-income families. But the problem with this reasoning is that the housing will not be produced if the builders are forced to sell homes below cost. Capital will not be available to builders if an insufficient return on investment exists. In this case we are back to square one. Government either makes builders build lower-quality homes, or requires them to sell at a loss. Both of these policies will harm the stock of housing and prevent development.

An Alternative Way to Promote Affordable Housing

Increases in population have undoubtedly increased

the demand for housing in some areas. But a large and more affluent population means large increases in demand for many goods. Prices of haircuts, meals, bicycles, and movies have not increased nearly as much as home prices. These other goods have remained affordable because as demand for these other products increased, few regulations prevented suppliers from bringing more goods to market. The market signals, created by the increase in demand, induced suppliers to provide more products. With more goods available, prices did not increase dramatically. The same market signals have not increased the quantity of housing supplied. The question is: Why?

Increasing prices usually provide all the information and incentives to encourage suppliers to provide more of a good. Housing prices in areas such as California have skyrocketed but have not been met with the usual increase in supply. The reason is simple: housing regulations have prevented builders from building enough new homes to meet demand. A myriad of regulations, prohibitions, and questionable liability laws discourages, and often prevents, new home production. Growth controls such as moratoria on new construction, preservation ordinances that withhold new land for development, environmental regulations that increase the cost and/or prohibit development in certain areas, legal and bureaucratic processes that can delay a development for years, and exclusionary zoning laws have all contributed to the high cost of housing. Some of these regulations are passed at the state level and others come from municipalities. Regardless, the effect is the same: they prevent increases in the quantity of housing supplied and drive up the price of housing.

Economic theory and a number of studies on housing in California have, over the past 20 years, come to the same conclusion. Recent econometric studies confirm these results. Research on the effect of zoning regulation on home prices done by Edward Glaeser and Joseph Gyourko studied nationwide home prices and found that an "affordability crisis" only occurred in particular geographic areas that had restrictive land use regulations. Higher land prices in places like California are not the main reason for higher housing prices. They find that scarce land does not produce high prices; instead, "Zoning and other land-use controls are more responsible for high prices where we see them."[14] Entitled land has such high prices because permits to build are so scarce. Their econometric research concluded with a recommendation that:

> If policy advocates are interested in reducing housing costs, they would do well to start with zoning reform. Building small numbers of subsidized housing units is likely to have a trivial impact on average housing prices, even if well-targeted toward deserving poor households. However, reducing the implied zoning tax on new construction could well have a massive impact on housing prices.[15]

Other studies of Northern California have similar findings. A study by UC Berkeley economists Lawrence Katz and Kenneth Rosen on land-use regulation's effect on housing prices found that up until 1970 California housing had been in line with the national average of housing prices, but by 1980 California housing prices were more than double the national average. One of their major findings of the cause of the price increase is "a massive increase in the use of land-use and growth-management techniques to slow and stop new housing production."[16] In his study of housing costs throughout the United States, William Tucker concludes, "One thing is obvious: Stringent housing regulations have certainly not helped the San Francisco area solve its housing problems. They may even be creating the problems."[17]

Zoning and growth control policies have produced the undesirable consequence of increasing housing prices for low-income households. Exclusionary zoning is one prime example. It limits lot sizes and types of units, and generally makes housing more expensive. But just because regulations pushed housing in one direction does not mean government should have more regulations to push housing in the other. Mandatory inclusionary zoning laws are not a good solution. Because interference in the market process leads to unintended consequences, we should be wary before interfering even more. The answer to high housing prices resulting from prior regulations is not increased regulations. Adding more regulations will only cause the cycle to continue and encourage further distortions in the future. An alternative solution is to encourage the issuance of building permits, open more land for development, and abolish exclusionary zoning laws. If government reduces and eliminates regulations that slow and prevent housing development, the housing market can respond to increased demand just like other industries.

Conclusion

Inclusionary zoning ordinances are not an effective way of making housing more affordable. Inclusionary zoning is nothing more than a price control. By diminishing incentives for landowners to provide land for housing and incentives for builders to undertake projects, inclusionary zoning restricts the supply of housing. This drives up the price of all other market-priced homes and makes housing less affordable. Even the few families who do get the price-controlled units do not receive

the full benefits of homeownership since their potential appreciation is limited.

A free market in housing can benefit all income groups and keep prices affordable. The problem is that existing government land-use regulations and zoning practices have prevented the supply of homes from increasing fast enough to meet demand. If promoting affordable housing is the goal, the answer is to roll back existing regulations that discourage the supply of housing. That includes repealing the very inclusionary zoning ordinances that were passed in response to increasing prices.

Endnotes

[1] Mallach, Allan. 1984. *Inclusionary Housing Programs: Policies and Practices.* New Brunswick, NJ: Center for Urban Policy Research. Other information on the history and current practice of inclusionary zoning is from Robert Burchell and Catherine Galley "Inclusionary Zoning: Pros and Cons" *New Century Housing*, vol. 1 no. 2.

[2] Economic research has shown that when housing prices are restricted below market price, residents, including single men, use more rooms than they would have otherwise. Block, Walter "Rent Control" *The Concise Encyclopedia of Economics*. Ed. David R. Henderson. Indianapolis: Liberty Fund, Inc.

[3] Stoll, Michael (2002) "Mission Bay Takes Shape," *San Francisco Examiner*, September 13, 2002.

[4] Terri Morgan, "Loosened Rules Lure Developers to Watsonville" *San Jose Mercury News*, Sat Oct. 18, 2003. Interestingly, many advocates of affordable housing miss this completely. Bay Area Economics (2003:15) wrote, "The City of Watsonville adopted its inclusionary housing ordinance in 1991. To date, the program has directly created only thirteen affordable units. However, this low number is attributable to the lack of new development in Watsonville over the last 10 years." (*The City of Salinas Inclusionary Housing Program Feasibility Study* (2003) Berkeley: Bay Area Economics) The "however" in the above sentence is very telling. Bay Area Economics treats the lack of development as something that has no connection to the price controls. By ignoring the most important variable, namely price, it is easy to absolve price controls as the culprit that drove out builders.

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